

CITY OF CARTER LAKE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2016

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City of Carter Lake

Officials

Before January 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald Waltrip	Mayor	January 2018
Edward Aldmeyer	Council Member	January 2016
Barb Hawkins	Council Member	January 2016
Dave Huey	Council Member	January 2016
Ron Cumberledge	Council Member	January 2018
Barbara Melonis	Council Member	January 2018
Doreen Mowery	Clerk/Treasurer	January 2016
Lisa Ruehle	Deputy Clerk	Indefinite
Joe Thornton	Attorney	January 2016

After January 2016

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gerald Waltrip	Mayor	January 2018
Ron Cumberledge	Council Member	January 2018
Barbara Melonis	Council Member	January 2018
Frank Corcoran	Council Member	January 2020
Pat Paterson	Council Member	January 2020
Mary Schomer	Council Member	January 2020
Jackie Stender	Clerk/Treasurer	January 2017
Lisa Ruehle	Deputy Clerk	Indefinite
Michael O'Bradovich	Attorney	January 2017



Diane McGrain, CPA
Jim Menard, CPA
Kelsey Peterson, CPA

December 19, 2016

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Continued...

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December 19, 2016
City of Carter Lake
Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Carter Lake's basic financial statements. We previously audited the financial statements for the six years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the three years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Continued...

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City's Contributions on pages 7 through 12 and 30 through 34 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016 on our consideration of the City of Carter Lake's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Carter Lake's internal control over financial reporting and compliance.

Schroeder & Associates, PC

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Carter Lake provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities decreased approximately \$1,685,000 from fiscal year 2015 to 2016. Capital grants decreased approximately \$1,028,000, and other general receipts decreased \$767,000.
- Disbursements of the City's governmental activities decreased approximately \$936,000 from fiscal year 2015 to fiscal year 2016. Capital projects decreased approximately \$1,105,000.
- The City's total cash basis net position increased by approximately \$351,000 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$31,000 and the cash basis net position of the business type activities increased by approximately \$320,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund Financial Statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year, and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitation resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water works, the sanitary sewer system, garbage, storm sewer and post office activities. These activities are financed primarily by user charges.

Fund Financial Statements

The city has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water, Sewer, Garbage, Storm Sewer, and Village Post Office funds.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, by approximately \$31,000 to approximately \$2,912,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service	\$ 279	\$ 238
Operating grants, contributions and restricted interest	620	673
Capital grants, contributions and restricted interest	279	1,307
General receipts:		
Property tax	1,749	1,597
Tax increment financing	412	414
Local option sales tax	568	567
Other city tax	377	457
Grants and contributions not restricted to specific purposes	4	5
Commercial/industrial tax replacement	84	33
Unrestricted interest on investments	2	1
Other general receipts	13	780
Total receipts	<u>4,387</u>	<u>6,072</u>
Disbursements:		
Public safety	1,781	1,155
Public works	431	433
Culture and recreation	616	700
Community and economic development	23	106
General government	335	487
Debt service	913	1,097
Capital projects	209	1,314
Transfers out	48	-
Total disbursements	<u>4,356</u>	<u>5,292</u>
Change in cash basis net position	31	780
Cash basis net position beginning of year	<u>2,881</u>	<u>2,101</u>
Cash basis net position end of year	<u>\$ 2,912</u>	<u>\$ 2,881</u>

Total governmental activities receipts for the fiscal year were approximately \$4,387,000 compared to \$6,072,000 last year. This decrease was due to a decrease in capital grants and general obligation note proceeds net of refunding escrow deposits.

The cost of all governmental activities this year was approximately \$4,356,000, compared to \$5,292,000 last year.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 673	\$ 669
Sewer	696	696
Garbage	96	87
Storm sewer	-	12
Village post office	18	23
General receipts:		
Other city tax	-	26
Transfers ins	48	-
Total receipts	<u>1,531</u>	<u>1,513</u>
Disbursements:		
Water	462	461
Sewer	565	704
Garbage	154	145
Storm sewer	12	24
Village post office	18	21
Total disbursements	<u>1,211</u>	<u>1,355</u>
Change in cash basis net position	320	158
Cash basis net position beginning of year	<u>1,580</u>	<u>1,422</u>
Cash basis net position end of year	<u>\$ 1,900</u>	<u>\$ 1,580</u>

Total business type activities charges for services receipts for the fiscal year were approximately \$1,531,000 compared to approximately \$1,513,000 last year. The cash balance increased approximately \$320,000 from the prior year. Disbursements decreased approximately \$144,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Carter Lake completed the year, its governmental funds reported a combined fund balance of \$2,912,108, an increase of \$31,291 from last year's balance of \$2,880,817. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$374,905 to \$1,540,657. The decrease was due to purchase of a fire truck and fire station improvements.
- The Special Revenue, Road Use Tax Fund increased \$238,697 to \$663,142. The increase was due to fact that both the road use tax monies and local option sales tax receipts came in higher than anticipated. Additionally, the equipment budget of \$84,000 was not used.
- The Special Revenue, Employee Benefit Fund increased \$58,098 to \$301,730. The increase was due to the workers compensation insurance was paid in the previous budget year. Additionally, there were excess funds from the removal of the resource center.

- The Special Revenue, Urban Renewal Tax Increment Fund increased \$6,627 to \$229,190.
- The Debt Service Fund increased \$28,633 to \$104,299. The increase was due to general obligation refunding note proceeds of \$623,041 net of payments to escrow of \$610,000 to refund the old debt.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$234,557 to \$826,180. The increase was due to rate increases generating more receipts than anticipated. Additionally, wholesale water purchases were \$122,000 less than budgeted, and infrastructure repairs and installation of fire hydrants were not completed during the fiscal year.
- The Enterprise, Sewer Fund cash balance increased \$155,836 to \$741,919. The increase was due to rate increases generating more than anticipated. Additionally, \$53,700 was budgeted for infrastructure repairs and \$50,000 was budgeted for repairs and equipment. These funds were not used during the fiscal year.
- The Enterprise, Garbage Fund cash balance decreased \$58,197 to \$252,560. The Council chose to reduce the amount of cash reserve in the fund so rates do not cover expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments resulted in an increase in disbursements of \$984,208. The increase was primarily to budget for expenses related to purchase of a fire truck and additional capital projects.

The City receipts were \$385,021 more than budgeted due to additional miscellaneous receipts.

With the amendments, total disbursements were \$841,642 less than budgeted. Capital expenditures were less than budgeted.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$5,955,000 in long-term debt outstanding, compared to approximately \$6,660,000 last year as shown below:

Outstanding Debt at Year End (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
General obligation notes	\$ 5,955	\$ 6,660

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt of approximately \$5,955,000 is below its constitutional debt limit of approximately \$10 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Carter Lake's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates, and fees that will be charged for various City activities.

Taxes are levied at maximum of \$8.10/1000. The City is anticipating increased revenue in property tax, local option sales tax, building permits, and utility fees generated by the increase in new business. The City is also looking at funding for future sewer projects.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jackie Stender, City Clerk, 950 Locust Street, Carter Lake, Iowa 51510.

City of Carter Lake
Basic Financial Statements

City of Carter Lake
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2016

					Net (Disbursement) Receipts and Changes in Cash Basis Net Position		

See notes to financial statements.

City of Carter Lake
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances - Governmental Funds
As of and for the year ended June 30, 2016

	General	Special Revenue			Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Employee Benefits	Urban Renewal Tax Increment			
Receipts:							
Property tax	\$ 1,107,068	-	325,069	-	263,895	-	1,696,032
Tax increment financing	-	-	-	412,440	-	-	412,440
Other city tax	496,785	198,834	10,176	-	7,689	284,048	997,532
Licenses and permits	79,134	-	-	-	-	-	79,134
Use of money and property	12,235	-	-	-	-	77	12,312
Intergovernmental	65,480	467,748	12,722	16,845	10,709	73,416	646,920
Charges for service	117,917	-	-	-	-	-	117,917
Special assessments	1,297	-	-	-	-	-	1,297
Miscellaneous	173,658	75	-	10,072	-	227,203	411,008
Total receipts	2,053,574	666,657	347,967	439,357	282,293	584,744	4,374,592
Disbursements:							
Operating:							
Public safety	1,576,543	-	187,299	-	-	17,016	1,780,858
Public works	3,420	427,960	-	-	-	-	431,380
Culture and recreation	541,750	-	74,142	-	-	-	615,892
Community and economic development	-	-	-	22,557	-	-	22,557
General government	306,766	-	28,428	-	-	-	335,194
Debt service	-	-	-	-	913,136	-	913,136
Capital projects	-	-	-	-	-	209,539	209,539
Total disbursements	2,428,479	427,960	289,869	22,557	913,136	226,555	4,308,556
Excess (deficiency) of receipts over (under) disbursements	(374,905)	238,697	58,098	416,800	(630,843)	358,189	66,036
Other financing sources (uses):							
General obligation note proceeds	-	-	-	-	623,041	-	623,041
Payments to escrow for refunding notes	-	-	-	-	(610,000)	-	(610,000)
Operating transfers in	-	-	-	-	646,435	-	646,435
Operating transfers out	-	-	-	(410,173)	-	(284,048)	(694,221)
Total other financing sources (uses)	-	-	-	(410,173)	659,476	(284,048)	(34,745)
Change in cash balances	(374,905)	238,697	58,098	6,627	28,633	74,141	31,291
Cash balances beginning of year	1,915,562	424,445	243,632	222,563	75,666	(1,051)	2,880,817
Cash balances end of year	\$ 1,540,657	663,142	301,730	229,190	104,299	73,090	2,912,108
Cash Basis Fund Balances							
Restricted for:							
Streets	-	663,142	-	-	-	-	663,142
Employee benefits	-	-	301,730	-	-	-	301,730
Tax increment financing	-	-	-	229,190	-	-	229,190
Debt service	-	-	-	-	104,299	-	104,299
Other purposes	-	-	-	-	-	73,090	73,090
Unassigned	1,540,657	-	-	-	-	-	1,540,657
Total cash basis fund balances	\$ 1,540,657	663,142	301,730	229,190	104,299	73,090	2,912,108

See notes to financial statements.

City of Carter Lake
Statement of Cash Receipts, Disbursements and Changes in Cash Balances -
Proprietary Funds
As of and for the year ended June 30, 2016

	Enterprise Funds				Total
	Water	Sewer	Garbage	Nonmajor Proprietary Funds	
Operating receipts:					
Charges for service	\$ 650,558	692,275	95,880	18,039	1,456,752
Miscellaneous	22,389	3,550	-	-	25,939
Total operating receipts	672,947	695,825	95,880	18,039	1,482,691
Operating disbursements:					
Business type activities	462,283	564,502	154,077	30,322	1,211,184
Excess (deficiency) of operating receipts over (under) operating disbursements	210,664	131,323	(58,197)	(12,283)	271,507
Non-operating receipts:					
Intergovernmental	-	620	-	-	620
Change in cash balances before transfers	210,664	131,943	(58,197)	(12,283)	272,127
Transfers in	23,893	23,893	-	-	47,786
Change in cash balances	234,557	155,836	(58,197)	(12,283)	319,913
Cash balances beginning of year	591,623	586,083	310,757	91,049	1,579,512
Cash balances end of year	\$ 826,180	741,919	252,560	78,766	1,899,425
Cash Basis Fund Balances					
Unrestricted	\$ 826,180	741,919	252,560	78,766	1,899,425

See notes to financial statements.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies

The City of Carter Lake is a political subdivision of the State of Iowa located in Pottawattamie County. It was first incorporated in 1930 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, garbage and storm sewer utilities and a Village Post Office for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Carter Lake has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City (primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

Blended Component Unit

The Carter Lake Smoke Eaters is legally separate from the City but is so intertwined with the City that it is in substance, the same as the City. It is reported as part of the City and blended into Special Revenue Funds.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Pottawattamie County Assessor's Conference Board and the Pottawattamie County Joint E911 Service Board.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position is often subject to constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies - Continued

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefit Fund is used to account for property tax and other receipts to be used for employee pensions and other benefits.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general and local option sales tax long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Garbage Fund accounts for the collection and disbursement of garbage collection fees and landfill fees.

C. Measurement Focus and Basis of Accounting

The City of Carter Lake maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (1) Summary of Significant Accounting Policies - Continued

C. Measurement Focus and Basis of Accounting - Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements did not exceed the amended amounts budgeted.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2014, to compute the amounts which became liens on property on July 1, 2015. These taxes were due and payable in two installments on September 30, 2015 and March 31, 2016, at the Pottawattamie County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (2) Cash and Pooled Investments - Continued

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

NOTE (3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ending June 30,	General Obligation Bonds & Notes	
	Principal	Interest
2017	\$ 745,000	161,585
2018	750,000	156,316
2019	765,000	130,175
2020	780,000	112,926
2021	390,000	94,362
2022-2026	925,000	386,963
2027-2031	940,000	246,487
2032-2034	660,000	53,600
	<u>\$ 5,955,000</u>	<u>1,342,414</u>

Interest costs paid during the year ended June 30, 2016 totaled \$195,637.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$10 million which was not exceeded during the year ended June 30, 2016.

General Obligation Capital Loan Notes

On June 1, 2016, the City issued \$620,000 in general obligation capital loan notes with an interest rate of 2% to refund general obligation loan notes of \$610,000, with interest rates ranging from 4.25% to 4.60%. The City had an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$39,000.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (3) Bonds and Notes Payable – Continued

General Obligation Local Option Sales and Service Tax Refunding Capital Loan Notes

On March 31, 2015, the City issued \$3,260,000 general obligation refunding notes with interest rates ranging from 2.00% to 4.00% per annum. A total of \$3,726,685, which includes the refunding note proceeds of \$3,406,564, was placed in escrow to help refund \$3,280,000 Local Option Sales and Service Capital loan notes issued July 1, 2008. The old debt has a final call date of June 1, 2018. The escrow balance of \$3,395,698, and the refunded debt outstanding of \$3,145,000 at June 30, 2016, are not reflected in the City's financial statements.

NOTE (4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (4) Pension Plan - Continued

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$114,788.

Net Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City's liability for its proportionate share of the net pension liability totaled \$475,016. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.0096148%, which was an increase of 0.001184% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$65,122, \$167,398 and \$235,443 respectively.

There were no non-employer contributing entities to IPERS.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (4) Pension Plan - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS'

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (4) Pension Plan - Continued

investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,163,593	\$ 475,016	\$ (105,769)

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE (5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, sick leave and compensatory time payable to employees at June 30, 2016, primarily relating to the General Fund and Proprietary Funds are as follows:

Type of Benefit	Amount
Vacation	\$ 32,000
Sick leave	71,000
Compensatory time	9,000
	<u>\$ 112,000</u>

This liability is computed on rates of pay effective as of June 30, 2016.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (6) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 746 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital, and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2016 were \$91,023.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (6) Risk Management - Continued

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE (7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	\$ 410,173
	Local Option Sales Tax	<u>236,262</u>
		646,435
Enterprise:	Special Revenue	
Water	Local Option Sales Tax	23,893
Enterprise:	Special Revenue	
Sewer	Local Option Sales Tax	<u>23,893</u>
		<u>\$ 694,221</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

City of Carter Lake
Notes to Financial Statements
June 30, 2016

NOTE (8) Development and Rebate Agreements

The City entered into development and rebate agreements during the years ended June 30, 2004, and June 30, 2014, to assist in urban renewal projects. The City agreed to rebate incremental tax paid by the developer in exchange for public improvement infrastructure constructed by the developer as set forth in the urban renewal plans.

In accordance with the fiscal year 2004 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated for a period of fifteen years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount rebated each year shall represent 50% of the incremental property tax received by the City, not to exceed total projected costs of \$294,000. During the year ended June 30, 2016, the City paid the developer \$18,106.

In accordance with the fiscal year 2014 development and rebate agreement, the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the developer will be rebated up to project costs of \$4,000,000 for a period not to exceed fifteen years beginning with the tax year in which the property tax on the completed value of the improvements is first paid.

NOTE (9) Deficit Balance

The Capital Projects Fund has a deficit balance of \$5,921 at June 30, 2016. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of project funding.

NOTE (10) Related Party Transaction

The City paid a council person \$15,208 in wages for a dual role as a librarian for the period January through June 2016.

NOTE (11) Litigation

The City is subject to pending litigation seeking compensatory damages for an unspecified amount. The claim is being defended by the City's insurance company.

NOTE (12) New Accounting Pronouncement

The City adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Carter Lake
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Other Information
 Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,696,032	-	-	1,696,032	1,661,594	1,661,594	34,438
Tax increment financing collections	412,440	-	-	412,440	392,455	392,455	19,985
Other city tax	997,532	-	-	997,532	970,340	970,340	27,192
Licenses and permits	79,134	-	-	79,134	46,040	46,040	33,094
Use of money and property	12,312	-	-	12,312	11,960	11,960	352
Intergovernmental	646,920	620	-	647,540	464,825	715,725	(68,185)
Charges for service	117,917	1,456,752	77	1,574,592	1,512,225	1,512,225	62,367
Special assessments	1,297	-	-	1,297	500	1,000	297
Miscellaneous	411,008	25,939	21,616	415,331	138,550	139,850	275,481
Total receipts	4,374,592	1,483,311	21,693	5,836,210	5,198,489	5,451,189	385,021
Disbursements:							
Public safety	1,780,858	-	17,016	1,763,842	1,184,699	1,947,389	183,547
Public works	431,380	-	-	431,380	521,429	520,389	89,009
Health and social services	-	-	-	-	4,000	4,000	4,000
Culture and recreation	615,892	-	-	615,892	706,685	723,688	107,796
Community and economic development	22,557	-	-	22,557	30,596	30,596	8,039
General government	335,194	-	-	335,194	389,978	386,259	51,065
Debt service	913,136	-	-	913,136	914,187	914,187	1,051
Capital projects	209,539	-	-	209,539	10,000	210,000	461
Business type activities	-	1,211,184	-	1,211,184	1,598,584	1,607,858	396,674
Total disbursements	4,308,556	1,211,184	17,016	5,502,724	5,360,158	6,344,366	841,642
Excess (deficiency) of receipts over (under) disbursements	66,036	272,127	4,677	333,486	(161,669)	(893,177)	1,226,663
Other financing sources, net	(34,745)	47,786	-	13,041	-	-	13,041
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	31,291	319,913	4,677	346,527	(161,669)	(893,177)	1,239,704
Balances beginning of year	2,880,817	1,579,512	32,279	4,428,050	3,196,416	4,460,329	(32,279)
Balances end of year	\$ 2,912,108	1,899,425	36,956	4,774,577	3,034,747	3,567,152	1,207,425

See accompanying independent auditors' report.

City of Carter Lake
Notes to Other Information – Budgetary Reporting
June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$984,208. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements did not exceed the amended amounts budgeted.

City of Carter Lake
Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
For the Last Two Years
(In Thousands)
Other Information

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.009615%	0.008431%
City's proportionate share of the net pension liability	\$ 475	334
City's covered-employee payroll	\$ 1294	1284
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	36.71%	26.01%
IPERS' net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditors' report

City of Carter Lake
Schedule of City Contributions
Iowa Public Employees' Retirement System
For the Last Seven Years
(In Thousands)
Other Information

	2016	2015	2014	2013	2012	2011	2010
Statutorily required contribution	\$ 115	122	121	125	115	98	92
Contributions in relation to the statutorily required contribution	115	122	121	125	115	98	92
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-
City's covered-employee payroll	\$ 1,228	1,294	1,284	1,344	1,308	1,218	1,215
Contributions as a percentage of covered-employee payroll	9.35%	9.43%	9.42%	9.28%	8.81%	8.10%	7.63%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10 year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditors' report

City of Carter Lake
Notes to Other Information – Pension Liability
Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Carter Lake
Schedule of Cash Receipts, Disbursements and Changes
in Cash Balances – Nonmajor Governmental Funds
As of and for the year ended June 30, 2016

	Special Revenue					Total
	Local Option Sales Tax	Police Forfeitures	Info USA CEBA Grant	Carter Lake Smoke Eaters	Capital Projects	
Receipts:						
Other city tax	\$ 284,048	-	-	-	-	284,048
Use of money and property	-	-	-	77	-	77
Intergovernmental	-	-	-	-	73,416	73,416
Miscellaneous	-	-	-	21,616	205,587	227,203
Total receipts	284,048	-	-	21,693	279,003	584,744
Disbursements:						
Operating:						
Public safety	-	-	-	17,016	-	17,016
Capital projects	-	-	-	-	209,539	209,539
Total disbursements	-	-	-	17,016	209,539	226,555
Excess of receipts over disbursements	284,048	-	-	4,677	69,464	358,189
Other financing (uses):						
Operating transfers out	(284,048)	-	-	-	-	(284,048)
Total other financing (uses)	(284,048)	-	-	-	-	(284,048)
Change in cash balances	-	-	-	4,677	69,464	74,141
Cash balances beginning of year	-	4,033	38,022	32,279	(75,385)	(1,051)
Cash balances end of year	\$ -	4,033	38,022	36,956	(5,921)	73,090
Cash Basis Fund Balances						
Restricted for other purposes	\$ -	4,033	38,022	36,956	(5,921)	73,090

See accompanying independent auditors' report.

City of Carter Lake
 Schedule of Cash Receipts, Disbursements and Changes
 in Cash Balances – Nonmajor Enterprise Funds
 As of and for the year ended June 30, 2016

	Enterprise Funds		
	Storm Sewer	Village Post Office	Total
Operating receipts:			
Charges for service	\$ 299	17,740	18,039
Operating disbursements:			
Business type activities	<u>12,229</u>	<u>18,093</u>	<u>30,322</u>
Change in cash balances	(11,930)	(353)	(12,283)
Cash balances beginning of year	<u>91,094</u>	<u>(45)</u>	<u>91,049</u>
Cash balances end of year	\$ <u><u>79,164</u></u>	<u><u>(398)</u></u>	<u><u>78,766</u></u>
 Cash Basis Fund Balances			
Unrestricted	\$ <u><u>79,164</u></u>	<u><u>(398)</u></u>	<u><u>78,766</u></u>

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Refunded During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:										
Capital loan	Jul 1, 2008	4.25-4.60%	\$ 1,055,000	\$ 725,000	-	725,000	-	-	31,825	-
Capital loan	Dec 16, 2010	2.10-2.75%	3,225,000	1,900,000	-	365,000	-	1,535,000	44,423	-
Capital loan	Mar 31, 2015	2.00%	775,000	775,000	-	100,000	-	675,000	18,126	-
Capital loan refunding	Mar 31, 2015	2.00-4.00%	3,260,000	3,260,000	-	135,000	-	3,125,000	101,263	-
Capital loan	June 1, 2016	2.00%	620,000	-	620,000	-	-	620,000	-	-
				<u>\$ 6,660,000</u>	<u>620,000</u>	<u>1,325,000</u>	<u>-</u>	<u>5,955,000</u>	<u>195,637</u>	<u>-</u>

See accompanying independent auditors' report.

Schedule 4

City of Carter Lake
Bond and Note Maturities
June 30, 2016

General Obligation Notes									
Year Ending June 30,	Capital Notes Issued Dec 16, 2010		Capital Notes Issued Mar 31, 2015		Refunding Notes Issued Mar 31, 2015		Capital Notes Issued Jun 1, 2016		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2017	2.10%	370,000	2.00%	105,000	2.00%	140,000	2.00%	130,000	745,000
2018	2.30%	380,000	2.00%	110,000	2.00%	140,000	2.00%	120,000	750,000
2019	2.50%	390,000	2.00%	110,000	2.00%	145,000	2.00%	120,000	765,000
2020	2.75%	395,000	2.00%	115,000	2.00%	145,000	2.00%	125,000	780,000
2021	-	-	2.00%	115,000	2.00%	150,000	2.00%	125,000	390,000
2022	-	-	2.00%	120,000	2.00%	155,000	-	-	275,000
2023	-	-	-	-	2.00%	155,000	-	-	155,000
2024	-	-	-	-	3.00%	160,000	-	-	160,000
2025	-	-	-	-	3.00%	165,000	-	-	165,000
2026	-	-	-	-	3.25%	170,000	-	-	170,000
2027	-	-	-	-	3.25%	175,000	-	-	175,000
2028	-	-	-	-	4.00%	180,000	-	-	180,000
2029	-	-	-	-	4.00%	185,000	-	-	185,000
2030	-	-	-	-	4.00%	195,000	-	-	195,000
2031	-	-	-	-	4.00%	205,000	-	-	205,000
2032	-	-	-	-	4.00%	210,000	-	-	210,000
2033	-	-	-	-	4.00%	220,000	-	-	220,000
2034	-	-	-	-	4.00%	230,000	-	-	230,000
		<u>\$ 1,535,000</u>		<u>\$ 675,000</u>		<u>\$ 3,125,000</u>		<u>\$ 620,000</u>	<u>\$ 5,955,000</u>

See accompanying independent auditors' report.

City of Carter Lake
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Receipts:										
Property tax	\$ 1,696,032	1,629,634	1,585,241	1,506,200	1,474,829	1,433,556	1,291,412	1,371,397	1,338,413	1,481,188
Tax increment financing collections	412,440	413,700	372,163	574,767	1,058,673	1,057,294	761,192	666,705	560,164	572,962
Other city tax	997,532	1,025,116	971,119	984,878	894,542	894,876	769,810	917,368	690,569	711,146
Licenses and permits	79,134	41,494	49,307	30,017	30,298	29,197	50,960	44,228	38,214	41,134
Use of money and property	12,312	12,366	15,284	33,997	37,894	43,098	48,866	92,497	97,277	137,870
Intergovernmental	646,920	1,245,567	683,464	1,307,197	1,278,206	1,678,490	634,227	469,175	678,524	685,306
Charges for service	117,917	117,326	141,472	107,353	123,256	139,293	157,437	99,001	74,234	87,682
Special assessments	1,297	1,089	1,550	6,697	8,176	10,640	11,390	17,121	64,153	-
Miscellaneous	411,008	805,870	244,399	264,389	335,159	189,750	164,185	182,892	274,683	133,945
Total	\$ 4,374,592	5,292,162	4,063,999	4,815,495	5,241,033	5,476,194	3,889,479	3,860,384	3,816,231	3,851,233
Disbursements:										
Operating:										
Public safety	\$ 1,780,858	1,154,841	1,221,019	1,195,821	1,290,383	1,149,328	1,035,862	1,020,330	1,097,329	919,725
Public works	431,380	432,515	385,319	402,563	408,739	355,473	345,078	486,637	516,466	405,487
Health and social services	-	-	-	-	-	9,835	14,007	14,522	10,065	9,951
Culture and recreation	615,892	699,649	699,579	752,507	710,323	746,306	847,624	788,197	800,422	609,128
Community and economic development	22,557	106,070	163,358	217,701	600,566	528,421	541,819	462,331	578,678	-
General government	335,194	487,413	389,453	426,793	1,146,590	413,717	352,446	302,792	324,096	293,986
Debt service	913,136	1,097,593	864,612	869,284	837,908	4,065,438	528,124	674,988	385,815	421,965
Capital projects	209,539	1,314,031	498,726	408,827	1,032,791	3,120,468	1,386,595	3,198,281	650,395	1,559,200
Total	\$ 4,308,556	5,292,112	4,222,066	4,273,496	6,027,300	10,388,986	5,051,555	6,948,078	4,363,266	4,219,442

See accompanying independent auditors' report.

City of Carter Lake



Diane McGrain, CPA
Jim Menard, CPA
Kelsey Peterson, CPA

December 19, 2016

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Carter Lake, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Carter Lake's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Carter Lake's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Carter Lake's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Carter Lake's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued...

City of Carter Lake
Independent Auditors' Report on
Internal Control and Compliance and Other Matters

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitation, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Part I of the accompanying Schedule of Findings as items I-A-16 and I-B-16 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Carter Lake's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Carter Lake's Responses to Findings

City of Carter Lake's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Carter Lake's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Carter Lake during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroeder & Associates, PC

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2016

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-16 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The following functions are performed by the same person:

Cash receipts listing, bank deposits, and posting of cash receipts to cash receipts journal.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

I-B-16 Timesheets

Comment - Timesheets were not always reviewed and approved by supervisory personnel prior to preparation of payroll.

Recommendation - Procedures should be established to ensure timesheets are reviewed and approved by supervisory personnel prior to preparation of payroll. Supervisory review/approval should be evidenced by the supervisor's initials and the date approved.

Response - We will do this.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2016

Part II: Other Findings Related to Statutory Reporting:

II-A-16 Certified Budget

Disbursements during the year ended June 30, 2016 did not exceed the amended amounts budgeted.

II-B-16 Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-16 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16 Business Transactions

We noted no business transactions between the City and City officials, or employees.

II-E-16 Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-16 Council Minutes

Comment - Minutes for Council meetings after December were not filed or signed. There were no minutes recorded for the April meeting.

In addition, out of 50 disbursements tested, we noted one electronic claim was not approved by the Council.

Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting and include total disbursements by fund, a list of all claims allowed, and a summary of all receipts. Minutes, as well as disbursements by fund and a list of all claims allowed were not published after the March 2016 meeting. A summary of all receipts each month were not published after the November 2015 meeting.

Recommendation - All minutes should be recorded, filed and signed to document Council proceedings. In addition, all claims, including electronic payments, should be approved by the Council and properly filed. The City should comply with Chapter 372.13(6) of the Code of Iowa. The City should ensure the minutes, list of claims allowed, summary of receipts and total disbursements by fund are published as required.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2016

Part II: Other Findings Related to Statutory Reporting:

II-F-16 Council Minutes (continued)

Response - We will update the minute record book and include all claims for review by Council. We will comply with Chapter 372.13(6) and make all required publications.

Conclusion - Response accepted.

II-G-16 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

II-H-16 Revenue Bonds and Notes

No instances of noncompliance with the revenue note and bond resolutions were noted.

II-I-16 Excess Balances

Comment – The balances in the Enterprise – Water, Garbage and Storm Sewer Accounts at June 30, 2016, were in excess of each fund's disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances, and where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response – We reduced the garbage fees charged during a prior year. We are maintaining balances in other accounts for anticipated repairs and to establish a 25% reserve for anticipated annual disbursements. We are reviewing this annually at budget time.

Conclusion – Response accepted.

II-J-16 Inactive Capital Projects

Comment – The Capital Projects Funds – Avenue H account is inactive.

Recommendation – The City should make the appropriate transfer to close the account.

Response – The City plans to use the Avenue H account in the future to repair the road and costs would be absorbed at that time.

Conclusion – Response accepted.

City of Carter Lake
Schedule of Findings
Year Ended June 30, 2016

Part II: Other Findings Related to Statutory Reporting:

II-K-16 Financial Condition

Comment – The Capital Projects Fund had a deficit balance of \$5,921, and the Enterprise Village Post Office Fund had a deficit of \$398 at June 30, 2016.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The deficit in the Capital Projects Fund was due to construction cost incurred prior to receipt of project funding. The deficit balance in the Village Post Office Fund is due to the fact that we have an average of \$3,000 of stamps on hand which are not reflected in the cash basis of accounting.

Conclusion – Response accepted.

II-L-16 Annual Urban Renewal Report

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

II-M-16 Council Member Employment

Comment – The Council Member, Mary Schomer, is also employed as program coordinator at the Edward F. Owen Memorial Library, which is a part of the City government.

Section 372.13(8) of the Code of Iowa states, in part "...except as provided in section 362.5, an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office, but may be reimbursed for actual expenses incurred." The Council Member received \$15,208 in wages for her position as a librarian.

Recommendation – The Council Member should decide at what capacity she wants to serve the City. Serving both positions appears to be a conflict of interest.

Response – We feel this is not an issue for the City because the County Attorney indicated he would not pursue the legality of the issue.

Conclusion – Response acknowledged.